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AUTOMOTIVE MARKETING

FEBRUARY ISSUE/VOLUME 21, NUMBER 2

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AUTOMOTIVE MARKETING-ISSN 0193-3264 Published monthly (12 times a year) by Chilton Company, Chilton Way, Radnor, PA 19089. Chilton Co. is a division of American Broadcasting Companies Inc., New York, NY. Subscription prices (payable in advance) in the United States and U.S. possessions $36.00 a year; Canada, $70.00 a year. Single copies $3.50 each when available, U.S. only. SECOND CLASS postage paid at Wayne, PA 19087 and additional mailing offices. Postmaster send form 3579 at AUTOMOTIVE MARKETING, PO Box 2075, Radnor, PA 19089. Canadian GST Registration Number is R125906743.

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SPRING & SUMMER SELLING GUIDE

What's really behind the recession and how the aftermarket can fight back.

by **Phil Katcher,**
Business Editor

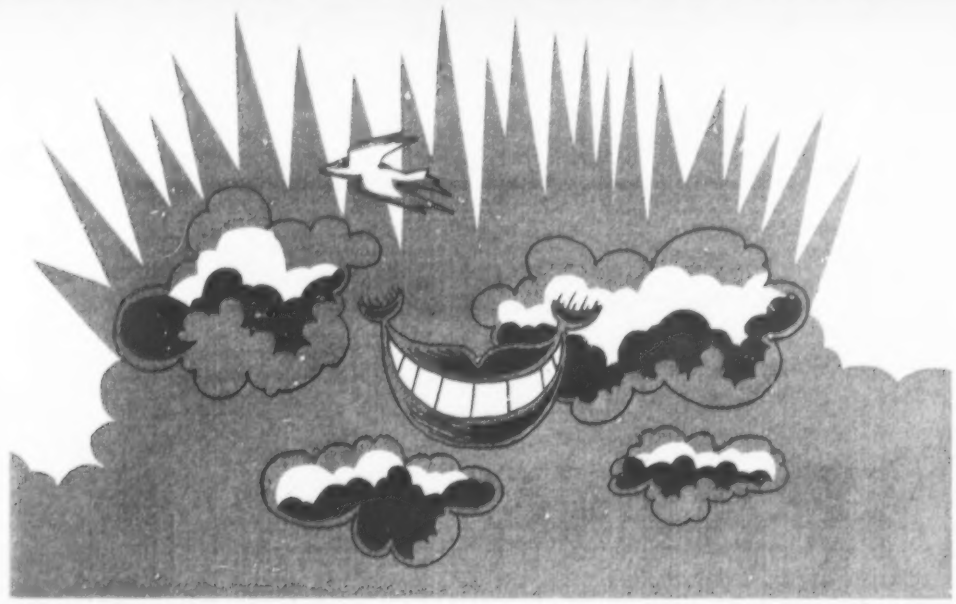
The story as aftermarket jobbers and retailers head into what has always been one of their best seasons, the spring/summer selling season when people fix up their vehicles after winter's wear and tear, is one of continuing stagnation in the midst of an apparent nationwide recession.

In 1991 almost 14,000 retailers filed for bankruptcy in the midst of the nation's eighth recession since 1950, according to the Management Horizons division of Price Waterhouse, Columbus, OH. This leads aftermarket jobbers and retailers like R. Farr, Jr., of Farr's Auto Supply, Granby, MA, to say he's going to spend the spring/summer season "trying to survive."

Psychologically, this recession seems unusually intrenched, even though signs such as the stock market reaching record levels are traditionally optimistic ones which mark a recession's end.

Why This One's So Bad

Why? There have been, says Susan O'Dell, president of Service Dimensions, Inc., Ontario, "since 1980, three economic downturns, the Gulf War, the lack of trust in politicians and other institutions, and an accelerating loss of white collar jobs. No wonder consumers continue to be afraid to spend even when economists announce the end of this recession."



Not that consumers are able to spend as much, even on basics such as vehicle maintenance, as they could a decade ago. According to a recently released study conducted by the staff of the congressional Joint Economic Committee, during the Reagan years families with annual incomes of over $63,000 saw their incomes rise 15%. But, some two-fifths of all two-income families—those making less than $35,000 yearly—saw their income levels stagnate and often actually decline. Families making between $35,000 and $63,000 saw only a slight rise. In both latter cases, considered in available free hours or dollars per hour, standards of living actually fell during the '80s.

The result has been that for the majority of middle class and lower class families, there have been neither dollars nor time to spend on vehicle maintenance, let alone upgrading through new accessories.

"The weakness in the U.S. economy and in retail profitability both stem from the same source," says Carl Steidtmann, chief economist of Management Horizons, "weak productivity growth. In the past three years, the productivity of the U.S. economy has actually declined. That is something that did not happen even in the darkest days of the 1970s."

The reaction among retailers and other service industry companies has been immediate. "They find their cost structures are bloated," according to Stephen S. Roach, principal and senior economist at Morgan Stanley & Co., New York, "their workers haven't increased productivity, and their capacity is excessive.

WHEN THE SPRING/ SUMMER SEASON STARTS

Most readers see their customers doing spring/summer product shopping starting in January. But in some areas the season starts as late as April.

December	**16%**
January	**40**
February	**12**
March	**20**
April	**12**

Source: Automotive Marketing Reader Panel

The response has been to cut costs. And for most service companies, cost cutting means essentially one thing—a reduction of white-collar labor expenses, the single largest component of the service sector's cost structure." Indeed, over 600,000 workers have been cut from retailers' payrolls, according to Management Horizons figures.

"Falling productivity translates into less income, a lower standard of income," Steidtmann says. "It contributes to income inequality, class conflict, and economic stagnation. It is what has made this recovery so Bush League."

A White-Collar Recession

In the case of this particular recession, the class conflict is not between white and blue collar workers, as in previous recessions, but between the rich who got richer during the Reagan years and everybody else. This is because much of the cost cutting that has resulted from low productivity has fallen on previously little touched groups of workers.

According to Roach, "cost cutting means essentially one thing—a reduction of white-collar labor expenses." The result? "The burden of economic distress is now being felt by a new segment of the economy—America's white-collar work force. These workers have never before known the true meaning of economic hardship and pain."

A marketing official in the automotive department of a major discount chain told *Automotive Marketing* privately that sales in his department have been off across the board, even in commodity product lines such as motor oil. White-collar workers, as well as blue-collar workers, feel that they can't even afford to maintain their vehicles in record numbers.

SPECIAL SPRING/ SUMMER PROMOTIONS

Most readers have special promotions planned for the 1992 spring/summer selling season.

Will promote	**61%**
Won't promote	**39**

Source: Automotive Marketing Reader Panel

OPTIMISM IN THE AIR

Readers today think the aftermarket will be better in 1992 than it was in 1991. This is a major change from how they felt this time last year. And, a considerably fewer readers think economic conditions will continue to worsen in 1992 than did in 1991.

How things will get	Percentage
Better	55%
Better	**22**
Same	39
Same	**46**
Worse	6
Worse	**31**

■ 1992 ■ **1991**

Source: Automotive Marketing Reader Panel

On top of that, another result of the Reagan years has been a backlash against the unbridled greed, the demand for more and more consumer trinkets which appear to offer little or no real value. Says Joan Pajunen, director of operations of Service Dimensions, "It is okay, and in fact even desirable, *not* to spend. In interviews all over North America we hear shoppers saying, 'I just don't need it.'"

SELLING TRENDS IN PRODUCTS

Readers are split on whether there are any trends in new products that will sell especially well in the up-coming spring/ summer selling season. We asked readers if they did or not see such trends.

No trends	**51%**
See trends	**49**

Source: Automotive Marketing Reader Panel

The overall result of the largest aftermarket consumer segment being afraid to spend and simply not wanting to spend has led to much less consumer demand overall. "As consumer demand stays weak," Steidtmann says, "competition and promotional activity will intensify, while prices and retail margins will fall. With margins and productivity falling, the outlook for retail profitability in 1992 is dismal."

What To Do

There are two major conclusions to be drawn from what has gone to make this a worse recession, in peoples' minds if not in fact, than ones in recent memory. First is that the recovery will be slow. According to Quick, he felt some time ago that a recovery would be slow and lengthly

because "I couldn't see who or what could pull our car out of the mud. The public sector didn't have the money to pump into the economy, at any level. Certainly the White House didn't offer (any money) and probably can't."

Given the record deficits the government faces, after years of huge government spending programs and trade deficits, there is little real money on hand for new spending programs or even meaningful tax cuts.

However, everyone agrees that a recovery will come, and in the not-too-distant future. Job slashing has just about reached its peak, says Roach. "Consequently, I look for white-collar employment attrition to diminish in 1992, leading to an improved sense of economic security for that large majority of workers who will survive the first and most dramatic wave of service sector restructuring. As these workers then realize that their livelihood remains intact, they will breathe a sigh of relief and open their eyes to many of the traditional forces of economic recovery that have now fallen into place—namely, sharply reduced interest rates, low inflation, and a competitive dollar. Add to that the growing possibility of tax cut, and—presto—you have the classic ingredients of economic recovery."

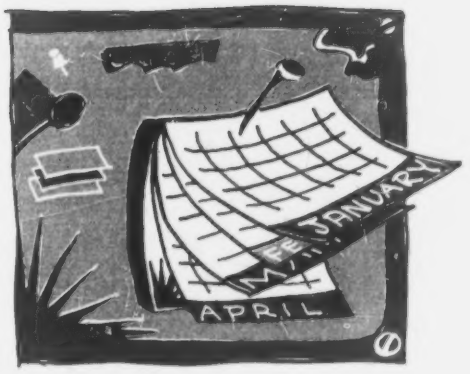
The other major conclusion is that the aftermarket players will have to rethink their businesses to meet changing needs. Says Service Dimension's Pajunen, "The new retail winners will be those who have redesigned their product mix and service delivery to make it palatable for consumers to overcome their disinclination to spend."

Mike Boecker, a Carquest jobber in College Station, TX, goes further: "I see increased competition for DIY business at the mass merchandiser or discount chain level for products like filters and chemicals. Also, there will be increased competition at the automobile dealer level due to extended warranties and advances in design and function such as ABS. What you have is a *decline* of product sales unless you find new business, new customers."

Four Ways To Win

Steidtmann has four suggestions to meet today's economic situation:

- "Invest in customer service. Focus on the customer's information needs." In the aftermarket, this means advertising and efforts to educate end-users on new technology and products. Avis Cox, Cox Auto Supply, Yankton, SD, is one jobber who says he's going to work on Steidtmann's first suggestion. According to Cox, in 1992 his company will "try for improved relations with customers by delivering parts to repair stations, etc."
- "Focus and develop a few key categories (of products). Become a destination store in those categories." Your store should be known as *the* store in which at least one product line, be it chemicals or front end parts, can be found for every application. Frank Johnson, Lacey Automotive Parts, Soledad, CA, will do this by stocking "more special products for my clientele."
- "Close marginal stores. Re-direct the investment dollars." Some of those investment dollars should go on inventory to meet the requirements above and equipment for those below. Art Badgley, Art's Prevision Automotive, Godfrey, IL, plans to concentrate on redirecting his investment dollars by "keeping inventory subdued." He's going a step further, saying he's "threatening instant dismissal to anyone over-ordering!" Jay Cohen, Straight Path Auto Supply, West Babylon, NY, is also "watching borderline operations."
- "Intensify systems development and information technology application efforts." Make use of all the new alphabet soup technologies of POS, EDI, and QR or get left behind. Pep Boys' $500 million investment in a great deal of new POS and scanning equipment, as well as store modernization and national expansion, led to a 7% climb in sales in the third quarter of 1991 compared to the same quarter of 1990. And, it puts them in good position for the future.



HOW LONG THE SEASON LASTS

The spring/summer selling season lasts surprisingly long, most readers say. A handful say it even lasts three quarters of a year. We asked readers how many months the season actually lasts.

Months	
None	2%
One	2
Two	5
Three	14
Four	21
Five	14
Six	18
Seven	5
Eight	14
Nine	5

Source: Automotive Marketing Reader Panel

THE BEST-SELLING PRODUCTS

Our readers predicted a "back-to-basics" approach in what their customers will be buying in the spring/summer selling season.

1. **Tires**
2. **Chemicals**
3. **Batteries**
4. **Wax & polish**
5. **Tune-up products**

Source: Automotive Marketing Reader Panel

To all the above, adds Thomas L. Quick, executive director, Resource Strategies Institute, New York, "if you wish to survive, not to say prosper, you must pay more attention to the assets which many American businesses have traditionally slighted: your human assets. You must find ways to increase the return from your internal people assets and your external people assets. You must persuade your internal assets, your employees, to want to commit themselves to work effectively to achieve your organizational goals year after year, and you must persuade your external assets, your customers, to buy from you year after year. In short, you need to encourage more effective repeat performance from both groups."

So, in the aftermarket today, as Abraham Lincoln said so many years ago, "The dogmas of the quiet past are not adequate for the stormy present." New ways to do business will be needed this upcoming spring/summer selling season. ■

HOW TO BEAT THE RECESSION

Here's what our readers said they're doing to beat the present recession, in order of the number of times the plans were listed:

1. **Increased promotions**
2. **Improved customer service**
3. **Increased advertising**
4. **Better inventory**
5. **Nothing at all, tied with: Work harder generally**

Source: Automotive Marketing Reader Panel